

**Compliance with Selected Laws Governing Federal Civilian Employment  
Report No. 04-05, June 23, 2004**

**INTRODUCTION**

This report presents the results of the Office of Inspector General's (OIG) audit to assess compliance with selected laws governing Federal civilian employment at the Railroad Retirement Board (RRB).

**Background**

The RRB is an independent agency in the executive branch of the Federal Government. The RRB administers comprehensive income security programs for the nation's railroad employees, retirees and their families.

To accomplish its mission the agency employs professional, managerial, technical and clerical workers. Agency personnel include claims examiners, information technology specialists, accountants, auditors, and actuaries at its headquarters as well as a network of contact representatives located in 53 field offices across the country. During fiscal year 2003, the RRB paid approximately \$91 million in total personnel compensation and benefits to approximately 1,135 agency employees.

The Bureaus of Fiscal Operations (BFO) and Human Resources (BHR) share responsibility for agency payroll processing. BFO plans, directs and coordinates payroll preparation, pre-audit of the payrolls, and issuance of financial reports. BHR administers position management, classification, and pay programs. The RRB's personnel/payroll operations are supported by the TESSERACT system, a mainframe computer application. BFO and BHR have both appointed system administrators who are responsible for system maintenance and security within their respective bureaus.

The RRB processes payroll using an exception-based system. The automated system is pre-programmed to pay each employee for a full work schedule, typically 80 hours per pay period unless an exception, such as absence, holiday, or overtime is recorded. The various operating units within the agency are responsible for entering exceptions to the automated system and maintaining supporting documentation.

Most organizational units document entries to the payroll system with a time and attendance sheet that is completed for each unit on a daily basis. The time and attendance sheet is used to account for the number of work hours scheduled, the hours actually worked and any absences or overtime. Most organizations create a record that identifies actual start and end times as a basis for calculating hours worked and reconciliation of exceptions.

The Office of Management and Budget, in Bulletin 01-02, "Audit Requirements for Federal Financial Statements," requires the OIG to perform tests of compliance with certain provisions of law governing compensation of Federal civilian employees as part of its annual audit of the RRB's financial statements. This audit supports the OIG's annual audit of the agency's financial statements. The RRB's strategic plan identifies

ensuring the effectiveness, efficiency, and security of operations as an objective within the agency's larger goal of serving as responsible stewards of the trust funds and resources under agency control. This audit also supports that objective.

### **Audit Objective**

The objective of this audit was to assess compliance with selected provisions of law governing Federal civilian employment.

### **Scope**

The scope of this review was agency compliance during FY 2004 with respect to the following provisions of Federal law set forth in the United States Code (USC), Title 5, Part III:

- Subpart D (Pay and Allowances), Chapter 53;  
    Subchapter III, Section 5332, (The General Schedule);  
    Subchapter IV Section 5343, (Prevailing rate determinations, wage schedules, night differentials);
- Subpart E (Attendance and Leave), Chapters 61 and 63;
- Subpart G (Insurance and Annuities), Chapters 83, 84, 87, and 89; and
- Subpart C (Employee Performance), Chapter 45.

We also considered the applicability of the minimum wage requirements established in USC Title 29, Chapter 8, Section 206.

The Office of Management and Budget in "Audit Requirements for Federal Financial Statements" mandates annual tests of compliance with the pay and allowance provisions applicable to employees under the General Schedule and/or subject to prevailing rate determinations, wage schedules or night differentials. We limited our tests of compliance to that population of employees for all provisions of law within the scope of this audit.

### **METHODOLOGY**

To accomplish our objective, we assessed the effectiveness of internal control by identifying applicable controls and testing selected controls on a sample basis. We also tested a random sample of employees for compliance with each provision of law within the scope of this audit. We used acceptance sampling to assess compliance with the laws identified above and the effectiveness of internal control. The sample review included:

- verification of General Schedule pay rates and wage grade schedules;
- review of file documentation supporting rate determinations, withholding and deductions;
- verification of approvals over personnel and payroll actions;

- comparison of processed payroll transactions with supporting documentation; and
- recomputation of payroll deductions for retirement and life insurance benefits.

Our sampling methodology is presented in Appendix I.

We performed additional testing of infrequently occurring transactions and control activities. These tests included 100% review of:

- payroll correction forms;
- sustained superior performance awards;
- recomputation of gross salary for employees subject to manual handling during the annual automated cost-of-living operation;
- recomputation of night differential pay; and
- verification of pay rate accuracy for employees who were transferred to the General Schedule from the performance management and recognition system.

We also reviewed documentation supporting the periodic reconciliation of payroll transactions as recorded in the automated payroll/ personnel system with expenses recorded for personnel compensation and benefits in the general ledger.

Our work was performed in accordance with generally accepted government auditing standards as applicable to the audit objective. Fieldwork was performed at the RRB headquarters in Chicago, Illinois during February through April 2004.

## **RESULTS OF EVALUATION**

The RRB complies with the laws governing Federal civilian employment within the scope of this audit. The agency has implemented the General Schedule, makes prevailing rate determinations, uses wage schedules and pays night differentials as mandated by USC Title 5. The agency is generally in conformance with established requirements for attendance and leave, insurance annuities and employee performance. We identified no instances in which the agency was non-compliant with the minimum wage provisions set forth in USC Title 29.<sup>1</sup>

However, internal control is not adequate to ensure that payroll transactions have been accurately processed in accordance with established procedures and are supported by a complete audit trail. We also noted that, in several cases, expected documentation had not been prepared to fully document BHR's decisions concerning life insurance elections and the effect of a break in Federal service.

The details of our findings and recommendations for corrective action follow. BFO has agreed to address the audit recommendations as part of the re-evaluation of payroll procedures and controls being conducted pursuant to the agency's conversion to a new

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<sup>1</sup> There were no employees being paid minimum wage during the period subject to review.

payroll system. BHR has already prepared missing documentation for the personnel files questioned by the audit. The full text of management's response is presented in the appendices to this report.

### **Time and Attendance Not Properly Authorized Prior to Input**

Time and attendance is not properly authorized because responsible staff accept time and attendance data for input without the required signatures. There is also no external oversight of this process that would disclose and remedy the condition. As a result, accountability for errors and omissions in the agency payroll has not been adequately ensured.

The RRB processes payroll using an exception-based system. The automated system is programmed to pay each employee for a full 80 hours each pay period unless an exception, such as absence, holiday, or overtime is recorded. Responsibility for documenting attendance, time worked and leave rests with the individual organizational units. Personnel within the various working units enter the exceptions to the automated system and maintain supporting documentation.

Established agency procedure requires each daily timesheet be signed by both the individual who prepared it and by a supervisor prior to input into the payroll processing system. We traced 113 payroll transactions to the supporting timesheets and observed that, in 17 cases, one of the two required signatures was missing. In eight cases, the time and attendance record did not include the signature of the preparer. In nine cases, the second signature had been omitted.

The standard timesheet form also provides for the signatures of a data entry clerk and a data entry supervisor. However, agency procedure does not require that responsibility for data preparation and data input be separated. As a result, we observed that the data input is typically performed by the same person who prepares the timesheet. Internal control could be strengthened if data input were performed by a third person who could reject unauthorized data.

### **Recommendations**

We recommend that BFO:

1. remind agency personnel of the proper authorization of time sheets under current procedure;
2. revise agency procedure to separate responsibility for data preparation and input; and
3. implement an oversight process to disclose non-conformance with agency procedure and provide feedback to staff and management responsible for payroll preparation and processing.

## Management's Response

BFO plans to address the OIG's recommendations as part of its evaluation of agency-wide payroll guidance, Administrative Circular BFO-4 and the Payroll User Guide which is being conducted in connection with the implementation of a new payroll system.

### **Controls Are Not Adequate to Ensure Payroll Accuracy**

Audit tests disclosed that the present system of supervisory approval is not sufficient to ensure that payroll data is accurate and processed in compliance with agency procedure. The primary control, a supervisory review, evidenced by signature, is ineffective. As a result, errors may occur and go uncorrected.

The Federal government pays General Schedule employees at an hourly rate for time worked based on a pay scale established by Congress. Most employees are subject to a 40 hour work week under which payment for hours not actually worked are compensated pursuant to statutory provisions for paid leave. In addition, time worked in excess of 40 hours is compensated pursuant to laws governing overtime including the award of compensatory leave.

The agency's exception-based payroll processing system is supported by time and attendance records that are prepared and maintained in the employee's organizational unit. The time and attendance record is used to account for the hours worked by each employee and identifies any absences or overtime and the manner in which those exceptions will be recorded.

We compared a randomly selected sample of 113 employee payrolls with supporting documentation.<sup>2</sup> Our tests disclosed 17 instances in which errors or inconsistencies led us to conclude that the payroll was or, may have been, inaccurate. The exceptions identified during the sample review follow.

- Five employees worked less than their scheduled hours but no leave was charged.
- Two employees were charged for leave in excess of the time absent from work.
- One employee was paid but had not signed-in or signed-out.
- Two employees signed-out but did not record the time.
- One employee's holiday absence was incorrectly recorded using the code for administrative leave instead of official leave.
- One employee worked in a district office that did not create a time and attendance record for October 13, 2003 (Columbus Day) although it is agency procedure to create such records to document official leave for Federal holidays.

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<sup>2</sup> An "employee payroll" is the payroll processed for one employee during a single pay period. There were 8 pay periods subject to audit testing. See Appendix I for a more detailed discussion of sampling methodology and results.

- In three cases, a district office had created payroll entries for compensatory time worked/taken that were not entirely logical and appear to be errors.
- In one case, a short absence, excused due to inclement weather, was incorrectly charged as time worked instead of administrative leave.

We also noted several entries in the time and attendance sheets of a single employee that lacked credibility because they appeared to have been altered and/or recorded out of sequence.

The agency has published procedures to guide staff in the preparation of time and attendance records and the system of supervisory approvals is intended to ensure a review for accuracy prior to processing. However, those controls are not fully effective. Employees do not receive periodic feedback concerning their implementation of existing procedure and the timesheets related to 15 of the 17 exceptions questioned by the audit had been fully approved.

We estimate the annual monetary impact of payroll errors of the type identified by the audit at approximately \$50,000 per year.<sup>3</sup>

### Recommendation

We recommend that BFO:

4. implement an oversight process to provide feedback to staff and management concerning errors in the payroll preparation process.

### Management's Response

BFO plans to address the OIG's recommendation as part of its evaluation of agency-wide payroll guidance, Administrative Circular BFO-4 and the Payroll User Guide which is being conducted in connection with the implementation of a new payroll system.

### **Some Personnel Documentation Had Not Been Filed**

Our tests included a review of personnel folders to confirm that the salary and benefit information used to compute the payroll were correct. The 113 personnel files reviewed did not include documentation to support the life insurance elections of five employees or to explain a discrepancy in the service compensation date of one employee.

We expected personnel files to include documentation supporting all personnel decisions. BHR reviewed the personnel files for the questioned cases and have advised us that they should have prepared substitute life insurance election forms to document the automatic enrollment of a newly hired employee who had not completed

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<sup>3</sup> This estimate is based on the total monetary impact of the seven cases in which auditors identified discrepancies in the computation of hours worked and/or leave charged. The magnitude of errors ranged between \$6.29 and \$66.88 per individual payroll.

an election form themselves.<sup>4</sup> They have also explained that the discrepancy in the service compensation date was due to a break in service that necessitated a special computation for an employee who had transferred to the RRB from another Federal agency. That computation should have been documented in the personnel file.

We reviewed several hundred personnel documents during this audit and the questioned items were limited to the six exceptions discussed above. Although relatively few in number, and limited to specific types of paperwork, these exceptions warrant some attention because, in general, BHR expects a very high level of accuracy in recording and documenting personnel data.

### Recommendation

We recommend that BHR:

5. review the exceptions identified by the audit and prepare file documentation as appropriate.

### Management's Response

The six files questioned by the audit have been corrected to reflect the appropriate documentation.

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<sup>4</sup> Absent a specific election, employees are automatically enrolled for the basic life insurance to which they are entitled.

### Sampling Methodology

We used acceptance sampling to assess internal control and compliance. We used a two step methodology to determine whether internal controls had been effective in at least 95% of payroll transactions.

**Sampling Unit:** one employee/paycheck

**Number of Employees:** 1,048

**Number of Pay Periods:** 8

**Sample Universe:** 8,384 (Number of Employees X Number of Pay Periods)

**Confidence level:** 90%

**Tolerable Error:** 5% (minimum 95% accuracy)

### Sampling Methodology

We used two-step acceptance sampling.

In step #1, we tested each of 59 randomly selected employee payrolls for compliance and operation of internal control. If no errors were identified, we concluded, with 90% confidence, that controls had been operating and effective in at least 95% of cases or that at least 95% of payroll transactions had been processed in compliance with the law.

When errors or exceptions were identified in step #1, we expanded testing by adding 54 items to the sample, thus basing our final conclusion on a total of 113 items. If no more than two (2) errors or exceptions were identified in the larger sample, we were able to conclude, with 90% confidence, that controls had been operating and effective in at least 95% of cases or that at least 95% of payroll transactions had been processed in compliance with the law.

If we identified three (3) or more errors/exceptions in step #2, we concluded that internal controls were not adequate to insure that at least 95% of payroll transactions would be processed in conformance with the law.

UNITED STATES GOVERNMENT  
**MEMORANDUM**

JUN 18 2004

**TO :** Henrietta B. Shaw  
Assistant Inspector General for Audit

**FROM :** Kenneth P. Boehne   
Chief Financial Officer

**SUBJECT:** Draft Report - Compliance with Selected Laws Governing  
Federal Civilian Employment, dated May 28, 2004

As you are aware, the Railroad Retirement Board migrated to GSA's e-Payroll system effective June 13, 2004. As such, we are evaluating current agency-wide payroll guidance, Administrative Circular BFO-4 and the Payroll User Guide, to determine to what extent it needs to be modified. As part of this process, we will address your recommendations, as appropriate, in the revised guidance.

We expect to release the revised guidance no later than December 31, 2004.



UNITED STATES GOVERNMENT

**MEMORANDUM**

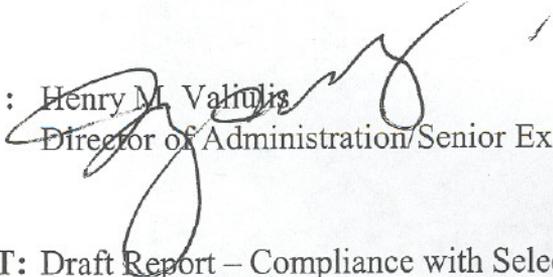
Appendix III

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

June 15, 2004

**TO** : Henrietta B. Shaw  
Assistant Inspector General, Audit

**FROM** :   
Director of Administration/Senior Executive Officer

**SUBJECT:** Draft Report – Compliance with Selected Laws Governing Federal  
Civilian Employment

This is in response to your memorandum dated May 28, 2004 for review and comment on the subject report.

We concur with the audit report item titled, "Some Personnel Documentation Had Not Been Filed." The six personnel files have now been corrected to reflect the appropriate documentation. One file had the service computation date documented to reflect a break in service. And, five employees' folders were corrected to reflect their automatic coverage under the life insurance program.

If you have any questions in this regard, please let me know.

cc: Director of Human Resources